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Message Text

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73
ACTION NEA-12

INFO OCT-01 ADP-00 PM-07 NSC-10 SS-15 RSC-01 IGA-02 EB-11

COME-00 TRSE-00 OMB-01 FRB-02 XMB-07 AGR-20 L-03 IO-13

SCI-06 NSF-04 AEC-11 SCS-03 AID-20 CIAE-00 DODE-00

FDRE-00 HEW-08 INR-10 NSAE-00 PA-03 PRS-01 SCA-01

USIA-15 RSR-01 /188 W
---------- 108556
R 311221Z AUG 73
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 809

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E.O. 11652: N/A
TAGS: OVIP, EGEN, PK
SUBJ: PRIME MINISTER BHUTTO'S VISIT TO THE US -- ECONOMIC ISSUES

REF: ISLAMABAD 7254

SUMMARY: THIS MESSAGE OUTLINES TENTATIVELY MATTERS LIKELY TO BE ON PRIME MINISTER BHUTTO'S MIND WHEN HE ARRIVES IN THE US. WE EMPHASIZE THAT IT IS TOO EARLY TO ASSESS RELIABLY THE IMPACT OF THE ON-GOING FLOODS.
END SUMMARY

1. SINCE JULY THE ECONOMIC SITUATION IN PAKISTAN HAS UNDERGONE MAJOR CHANGES PRIMARILY AS RESULT OF THE STILL ACTIVE FLOODS AFFECTING MAJOR PORTIONS OF THE PUNJAB AND SIND. THUS, WE ANTICIPATE THAT PRIMIN WILL TAKE A SOMEWHAT DIFFERENT LINE IN HIS DISCUSSIONS IN WASHINGTON THAN HE MIGHT HAVE IN JULY. WE KNOW THAT PRIMIN'S BRIEFING HAS NOT YET BEEN PREPARED BY HIS OWN STAFF AND THEREFORE AT THIS STAGE CAN ONLY TENTATIVELY SUGGEST WHAT MAY BE ON HIS AGENDA.
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2. FOOD AND FERTILIZER: SINCE JULY WORLDWIDE FOOD PICTURE HAS TIGHTENED AT SAME TIME THAT RELATIVELY OPTIMISTIC PAKISTANI OUTLOOK HAS BEEN REVERSED. EXCELLENT HARVEST OF ESTIMATED 7.5 MILLION TONS, COUPLED WITH VIGOROUS GOVERNMENT PROCUREMENT EFFORT ACCUMULATING 1.3 MILLION TONS FROM PAKISTAN'S OWN CROP TO BE AVAILABLE FOR FAIR PRICE RATION SHOPS, WAS GOING TO PERMIT PAKISTAN TO GET BY EVEN WITH MINIMUM PL 480 AVAILABILITIES. WHILE GOVERNMENT ESTIMATES OF PRIVATE WHEAT STOCK LOSS FROM FLOOD IN NEIGHBORHOOD ONE MILLION TONS MAY BE HIGH, IT IS CLEAR THAT THE GOVERNMENT HAS A NEW PROBLEM WITH REQUIREMENT FOR INCREASED RATION SHOP OFFTAKE TO FEED DEVASTATED AREAS. FREE MARKET WHEAT PRICES HAVE SHOT UP, IN SOME AREAS, BECAUSE OF TRANSPORTATION CONSTRAINTS, TO DOUBLE PRE-FLOOD LEVELS. US PRESIDENTIAL ANNOUNCEMENT THAT WE ARE PROVIDING 100,000 TONS MAY WELL HELP GOVERNMENT COUNTER SPECULATION IN WHEAT MARKET. HOWEVER, BHUTTO IS SURE TO SEEK HIGHEST AMERICAN PRIORITY FOR PAK FOOD REQUIREMENTS. SIMILARLY, WITH LOSS OF COTTON CROP SOMEWHERE BETWEEN 500,000 AND 1,000,000 BALES, IMPLYING A LOSS OF 25,000 TO 50,000 TONS OF COTON SEED OIL, PAKISTAN WILL BE LOOKING FOR VEGETABLE OIL ON AN URGENT BASIS. PARTICULARLY IN LIGHT OF WORLDWIDE FOOD SHORTAGES WHICH WILL MAKE IT IMPOSSIBLE FOR THE US TO PROVIDE ANYTHING LIKE THE AMOUNTS OF FOOD PAKISTAN FEELS IT REQUIRES, PAKISTAN WILL BE SEEKING MORE FERTILIZER TO HELP IT PRODUCE ITS OWN FOOD. WE BELIEVE THESE ITEMS WILL HAVE A HIGHER PRIORITY ON THE PRIME MINISTER'S AGENDA IN SEPTEMBER THAN WAS PROBABLY THE CASE IN JULY.

3. REHABILITATION: PAKISTAN IS STILL ASSESSING THE FOOD DAMAGES BUT WE ALREADY KNOW THAT PERHAPS TEN MILLION PEOPLE ARE AFFECTED, THAT MAJOR DAMAGE HAS BEEN DONE TO CANAL, TRANSPORTATION AND COMMUNICATION SYSTEMS, AND THAT LARGE PORTION OF EFFORT WHICH WAS INTENDED FOR NEW DEVELOPMENT WILL NOW GO INTO REHABILITATION. PAKISTAN IS LIKELY TO SEEK AUGMENTED FUNDS FROM INTERNATIONAL COMMUNITY TO HELP WITH RECOVERY. PRIMIN IN PUBLIC STATEMENTS HERE HAS BEEN CAREFUL NOT TO EXAGGERATE HOW MUCH DAMAGE HAS BEEN DONE, SPEAKING OF THE FLOOD AS A LIMITED OFFICIAL USE

MAJOR SETBACK BUT IN NO WAY SUGGESTING THAT THE FLOOD TAKES AWAY FROM BASICALLY GOOD LONG-TERM PROSPECTS FOR ECONOMIC GROWTH. THE PRIMIN WILL CERTAINLY BE APPRECIATIVE OF THE MANY-FACETED EFFORTS OF THE US IN RESPONDING TO FLOOD. HE MAY WELL USE HIS VISIT TO THE US TO SEEK AMERICAN LEADERSHIP IN ASSEMBLING A RECOVERY PACKAGE.

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4. DEBT: WITH THE SHORT-TERM DEBT RESCHEDULING AGREE-
MENT OUT OF THE WAY, PAKISTAN IS TURNING ITS ATTENTION
TO QUESTION OF LONG-TERM DEBT RESCHEDULING, PARTICULARLY
TO REMOVE THE PAYMENTS HUMP WHICH LOOMS IN THE FIVE YEARS
AHEAD. BECAUSE OUR AID DIRECTED TO THE THE FORMER PROVINCE
OF EAST PAKISTAN WAS LARGELY IN THE FORM OF FOOD AND
COMMODITY ASSISTANCE, PAKISTAN LOOKS TO US TO TAKE THIS
INTO ACCOUNT IN CONSIDERING THE AMOUNT OF LONG-TERM DEBT
RESCHEDULING WE WILL SUPPORT. WE BELIEVE THAT THE PRIMIN
WILL LOOK FOR ASSURANCES FROM THE US THAT WE WILL APPROACH
THE UPCOMING LONG-TERM DEBT NEGOTIATIONS WITH AN ATTITUDE
OF GENEROSITY.

5. ECONOMIC IMPLICATIONS OF THE SETTLEMENT WITH INDIA
AND BANGLADESH: A PARTICULARLY DIFFICULT AREA TO ASSESS IS
THE POSSIBLE CALL ON INTERNATIONAL RESOURCES IMPLICIT
IN PAKISTAN'S AGREEMENT IN PRINCIPLE TO ABSORB LARGE
NUMBERS OF "NON-BENGALI MUSLIMS" FROM BANGLADESH. WE
ALSO ARE UNAWARE OF WHAT CALLS MAY BE MADE FOR SPECIAL
TRANSPORTATION FACILITIES IN CONNECTION WITH REPATRIATION
OF PRISONERS IN INDIA AND BENGALIS IN PAKISTAN. WE
NOTE MUJIBUR RAHMAN'S REQUEST FOR USG HELP. AT THIS
POINT WE CAN ONLY FLAG THIS AS AN AREA WHICH COULD
BECOME AN AGENDA ITEM BY THE TIME OF THE PRIMIN'S VISIT.

6. WATER LOGGING AND SALINITY: IN LIGHT OF THE
ABOVE, WE SPECULATE THAT WATER LOGGING AND SALINITY MAY
BECOME A LESS IMPORTANT ECONOMIC SUBJECT THAN WAS EARLIER
ANTICIPATED. IT WILL BE RECALLED THAT THE PRIMIN TOLD
US THAT THIS WOULD BE HIS PRINCIPAL SUBJECT AREA ON THE
ECONOMIC SIDE. BY SEPTEL WE WILL PROVIDE COMMENTS ON
THE WATER LOGGING AND SALINITY PAPER CONTAINED IN THE
EARLIER BRIEFING BOOK.
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7. WE EXPECT THAT MEETINGS WITH PRESIDENT NIXON'S
REPRESENTATIVE, MAURICE WILLIAMS, NEXT WEEK WILL GIVE
US MORE INSIGHT INTO THE AREAS LIKELY TO BE EMPHASIZED
IN PRIMIN'S TALKS IN WASHINGTON. FURTHERMORE, BY THE
END OF NEXT WEEK, IT SHOULD BE POSSIBLE TO COME UP WITH
MORE DEFINITIVE ASSESSMENTS OF FLOOD DAMAGE AND RESULTANT
ECONOMIC REQUIREMENTS.
SOBER

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